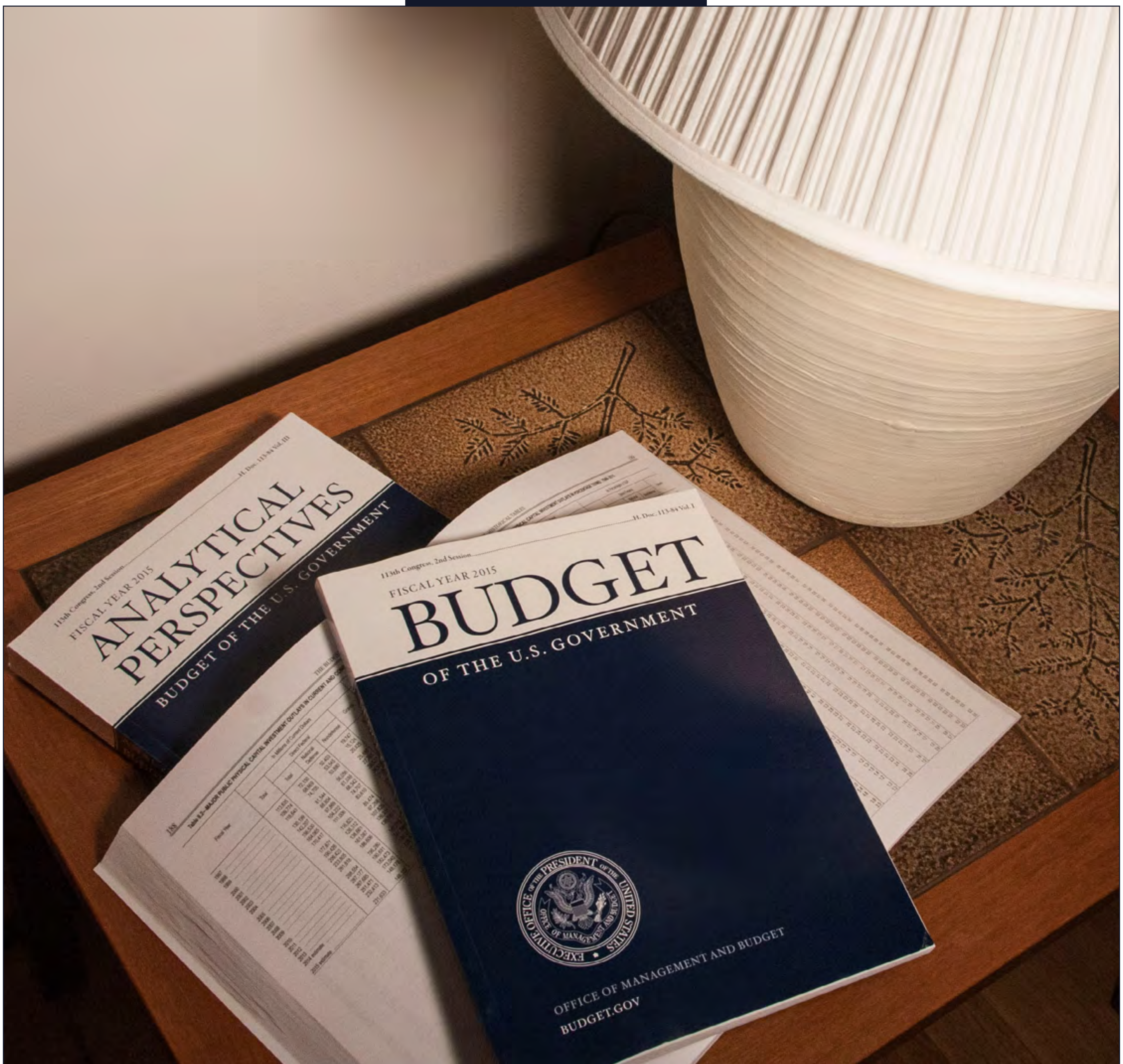
CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE

CBO

An Analysis of the President's 2015 Budget



APRIL 2014

Notes

Numbers in the text and tables may not add up to totals because of rounding.

Unless otherwise indicated, years referred to in this report are federal fiscal years, which run from October 1 to September 30.

Supplemental information about this analysis is available on CBO's website (www.cbo.gov/publication/45230).

Definitions of many of the terms used in this report can be found in CBO's glossary, available at www.cbo.gov/publication/42904.

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Summary

This report by the Congressional Budget Office (CBO) presents an analysis of the proposals in the President's budget request for fiscal year 2015, as submitted to the Congress on March 4, 2014. The analysis is based on CBO's economic projections and estimating models (rather than the Administration's), and it incorporates estimates of the effects of the President's tax proposals that were prepared by the staff of the Joint Committee on Taxation (JCT).[1]

In conjunction with analyzing the President's budget, CBO has updated its baseline budget projections, which were previously issued in February 2014. Unlike its estimates of the President's budget, CBO's baseline projections largely reflect the assumption that current tax and spending laws will remain unchanged, and therefore the projections provide a benchmark against which potential legislation can be measured. Under that assumption, CBO estimates that the federal deficit would total $492 billion in 2014 and that the cumulative deficit over the 2015–2024 period would amount to $7.6 trillion.[2]

How Would the President's Proposals Affect Federal Deficits and Debt?

The President's budget request specifies spending and revenue policies for the 2015–2024 period and includes initiatives that would have budgetary effects in fiscal year 2014 as well. CBO and JCT estimate that enactment of the President's proposals would boost deficits from 2014 through 2016 but reduce them (by generally increasing amounts) from 2017 through 2024, relative to projected deficits under CBO's baseline.[3] In particular, the President's policies are estimated to have the following consequences for federal deficits and debt:

- For 2014 and 2015, the deficit would be about $500 billion, or 3 percent of gross domestic product (GDP). Under the President's policies, deficits would generally increase in subsequent years through 2024 in nominal dollars, growing to between roughly $700 billion and $800 billion at the end of the period.[4]

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1. For more details about the President's tax proposals, see Joint Committee on Taxation, *Estimated Budget Effects of the Revenue Provisions Contained in the President's Fiscal Year 2015 Budget Proposal*, JCX-36-14 (April 15, 2014), http://go.usa.gov/kkxk.

2. For information about CBO's latest baseline, see Congressional Budget Office, *Updated Budget Projections: 2014 to 2024* (April 2014), www.cbo.gov/publication/45229. That updated baseline incorporates the effects of legislation and administrative actions through April 1, 2014.

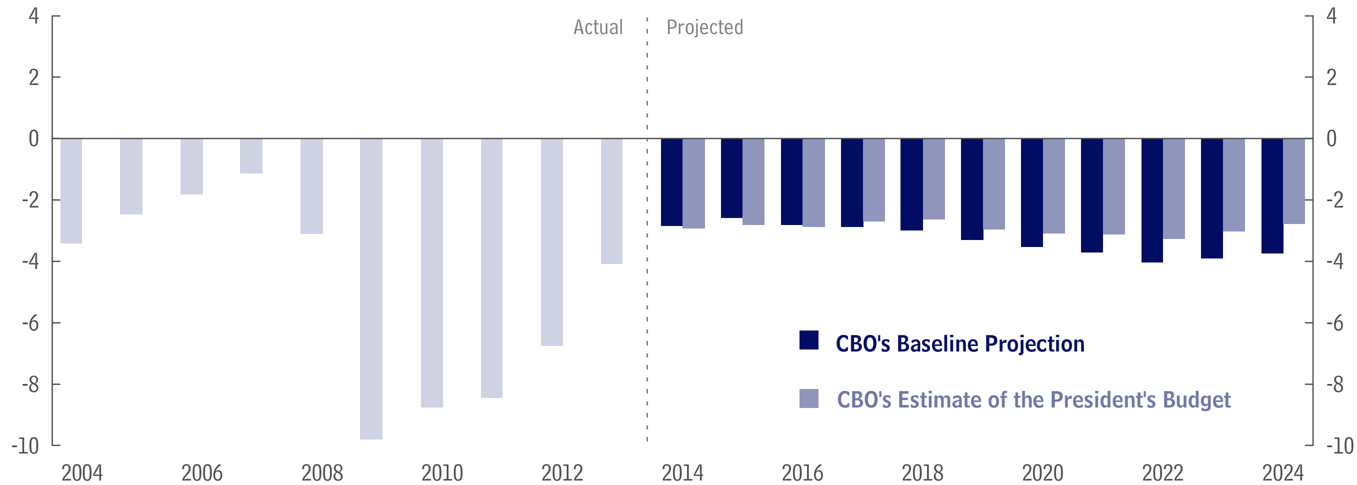
3. This analysis does not include an assessment of the macroeconomic effects of the President's proposals or the feedback from those effects on the federal budget. CBO intends to publish a separate analysis of those economic effects and indirect budgetary effects next month. However, the amounts included in this analysis for the budgetary effects of the President's proposal to enact comprehensive immigration reform implicitly reflect an assumption that there would be some effect on the size of the labor force, economic output, and other macroeconomic measures. The projected amounts of gross domestic product used in this report match those CBO issued as part of its 10-year baseline projections in February 2014 and thus do not include any effects from the immigration proposal.

4. Because both October 1, 2022, and October 1, 2023, fall on a weekend, certain payments that are due on those days will instead be made at the end of September, thus shifting them into the previous fiscal year. Without the shift in payments, the deficit under the President's proposals would reach roughly $810 billion in 2024 and represent about 3 percent of GDP from 2022 through 2024. Such timing shifts also affect deficits in the 2016–2018 period.

Figure 1.

Deficits Projected in CBO's Baseline and Under the President's Budget

(Percentage of gross domestic product)



Source: Congressional Budget Office.

- Deficits would be smaller than the amounts in CBO's baseline each year from 2017 through 2024 (see Figure 1). Although baseline deficits trend upward, to about 4 percent of GDP in the latter years of the projection period, under the President's proposals the deficit would remain close to 3 percent of GDP throughout the decade—which is similar to the average deficit of 3.1 percent experienced over the past 40 years. By the end of the 10-year period, the deficit under the President's budget would be below the projections in CBO's baseline by nearly 1 percent of GDP (see Table 1).

- In all, deficits would total $6.6 trillion between 2015 and 2024, $1.0 trillion less than the cumulative deficit in CBO's baseline.

- Federal debt held by the public would increase from $12.8 trillion, or 74 percent of GDP, at the end of 2014 to $19.9 trillion at the end of 2024, still equal to about 74 percent of GDP (see Table 2 on page 4). In CBO's baseline, debt held by the public rises to about 78 percent of GDP in 2024 (see Figure 2 on page 5).

What Proposals Would Have the Largest Budgetary Effects?

The President's budget contains many proposed changes to tax and spending policies. Over the 2015–2024 period, those policy changes would increase revenues by $1.4 trillion (or about 3 percent) and noninterest outlays by $446 billion (or 1 percent) relative to CBO's current-law baseline. Because deficits would be smaller than those projected in the baseline, those policy changes would also reduce interest payments by $108 billion (or 2 percent) over the 10-year period.

Among the policies proposed by the President, the ones with the largest estimated budgetary effects are the following:

- Less funding (relative to the amounts projected in CBO's baseline) for military operations in Afghanistan and for similar activities—known as overseas contingency operations. Following the rules specified in law, CBO's baseline incorporates the assumption that funding for such operations and activities each year through 2024 will equal the amount provided in 2014—$92 billion—with increases in funding to keep pace with inflation. By comparison, the President's budget includes a request for $85 billion for those operations and activities in 2015, a "placeholder" amount of $30 billion in each year from 2016 through 2021, and nothing thereafter. Consequently, estimated outlays for overseas contingency operations under the President's proposal are $659 billion less over the 2015–2024 period than those in CBO's baseline.

Table 1.

Comparison of Projected Revenues, Outlays, and Deficits in CBO's April 2014 Baseline and in CBO's Estimate of the President's Budget

(Billions of dollars)

	Actual, 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
							CBO's April 2014 Baseline							
Revenues	2,775	3,032	3,305	3,475	3,621	3,764	3,927	4,099	4,284	4,486	4,696	4,918	18,092	40,574
Outlays	3,455	3,523	3,774	4,011	4,197	4,391	4,649	4,903	5,162	5,484	5,701	5,920	21,022	48,192
Total Deficit	**-680**	**-492**	**-469**	**-536**	**-576**	**-627**	**-722**	**-804**	**-878**	**-998**	**-1,005**	**-1,003**	**-2,930**	**-7,618**
							CBO's Estimate of the President's Budget							
Revenues	2,775	3,033	3,337	3,538	3,726	3,890	4,061	4,242	4,448	4,671	4,904	5,144	18,552	41,962
Outlays	3,455	3,539	3,847	4,086	4,265	4,441	4,709	4,945	5,187	5,478	5,682	5,890	21,347	48,531
Total Deficit	**-680**	**-506**	**-509**	**-548**	**-539**	**-551**	**-648**	**-703**	**-739**	**-807**	**-778**	**-746**	**-2,795**	**-6,569**
							Difference Between CBO's Estimate of the President's Budget and CBO's Baseline							
Revenues	n.a.	2	32	62	105	126	135	143	165	185	208	226	460	1,388
Outlays	n.a.	16	73	74	68	50	60	42	26	-6	-19	-30	326	338
Total Deficit[a]	**n.a.**	**-14**	**-41**	**-12**	**37**	**76**	**74**	**101**	**139**	**191**	**227**	**256**	**135**	**1,049**
Memorandum:														
Deficit as a Percentage of GDP														
CBO's baseline	-4.1	-2.8	-2.6	-2.8	-2.9	-3.0	-3.3	-3.5	-3.7	-4.0	-3.9	-3.7	-2.9	-3.4
CBO's estimate of the President's budget	-4.1	-2.9	-2.8	-2.9	-2.7	-2.6	-3.0	-3.1	-3.1	-3.3	-3.0	-2.8	-2.8	-2.9
Debt Held by the Public as a Percentage of GDP														
CBO's baseline	72.1	73.8	73.3	72.8	72.4	72.5	73.1	73.8	74.8	76.1	77.1	78.1	n.a.	n.a.
CBO's estimate of the President's budget	72.1	73.8	73.6	73.1	72.6	72.3	72.5	72.9	73.3	73.9	74.2	74.3	n.a.	n.a.

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: n.a. = not applicable; GDP = gross domestic product.

a. Negative numbers indicate an increase in the deficit relative to CBO's baseline, and positive numbers indicate a decrease in the deficit.

- An increase in discretionary spending for all activities other than overseas contingency operations and surface transportation programs (which the President proposes to reclassify to the mandatory side of the budget). In total, projected outlays for those activities under the President's budget are $433 billion (or 4 percent) more over the 10-year projection period than those in CBO's baseline.

- A cap on the extent to which certain deductions and exclusions can reduce a taxpayer's income tax liability. The President's budget would limit the amount to no more than 28 percent of those deductions and exclusions; that change would increase revenues by $498 billion over the next decade, JCT estimates.

- Comprehensive immigration reform similar to the legislation that was passed by the Senate in 2013— S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act. In July 2013, CBO and JCT estimated that, under the legislation, the number of legal residents and the size of the labor force would increase, boosting tax receipts and direct spending for federal benefit programs; the legislation

Table 2.

CBO's Estimate of the President's Budget

	Actual, 2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
							In Billions of Dollars							
Revenues														
On-budget	2,102	2,290	2,565	2,726	2,869	2,990	3,121	3,263	3,428	3,608	3,795	3,989	14,272	32,356
Off-budget[a]	673	743	773	812	857	900	940	979	1,020	1,063	1,109	1,155	4,281	9,607
Total	**2,775**	**3,033**	**3,337**	**3,538**	**3,726**	**3,890**	**4,061**	**4,242**	**4,448**	**4,671**	**4,904**	**5,144**	**18,552**	**41,962**
Outlays														
Mandatory	2,032	2,132	2,377	2,580	2,703	2,795	2,974	3,128	3,307	3,537	3,675	3,815	13,431	30,893
Discretionary	1,202	1,180	1,203	1,181	1,161	1,155	1,172	1,189	1,198	1,206	1,218	1,237	5,872	11,920
Net interest	221	228	266	324	401	490	563	628	682	735	790	838	2,044	5,718
Total	**3,455**	**3,539**	**3,847**	**4,086**	**4,265**	**4,441**	**4,709**	**4,945**	**5,187**	**5,478**	**5,682**	**5,890**	**21,347**	**48,531**
On-budget	2,821	2,836	3,104	3,300	3,429	3,550	3,762	3,933	4,105	4,322	4,447	4,567	17,145	38,519
Off-budget[a]	634	704	743	786	836	890	948	1,012	1,082	1,156	1,236	1,323	4,202	10,012
Deficit (-) or Surplus	**-680**	**-506**	**-509**	**-548**	**-539**	**-551**	**-648**	**-703**	**-739**	**-807**	**-778**	**-746**	**-2,795**	**-6,569**
On-budget	-719	-546	-540	-574	-560	-560	-640	-670	-677	-714	-651	-578	-2,873	-6,163
Off-budget[a]	39	40	30	26	21	9	-8	-33	-62	-93	-126	-168	78	-405
Debt Held by the Public	11,983	12,755	13,334	13,945	14,549	15,153	15,857	16,619	17,419	18,288	19,126	19,938	n.a.	n.a.
Memorandum:														
Gross Domestic Product[b]	16,627	17,273	18,126	19,083	20,052	20,954	21,867	22,799	23,755	24,746	25,774	26,830	100,082	223,984
							As a Percentage of Gross Domestic Product							
Revenues														
On-budget	12.6	13.3	14.1	14.3	14.3	14.3	14.3	14.3	14.4	14.6	14.7	14.9	14.3	14.4
Off-budget[a]	4.0	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Total	**16.7**	**17.6**	**18.4**	**18.5**	**18.6**	**18.6**	**18.6**	**18.6**	**18.7**	**18.9**	**19.0**	**19.2**	**18.5**	**18.7**
Outlays														
Mandatory	12.2	12.3	13.1	13.5	13.5	13.3	13.6	13.7	13.9	14.3	14.3	14.2	13.4	13.8
Discretionary	7.2	6.8	6.6	6.2	5.8	5.5	5.4	5.2	5.0	4.9	4.7	4.6	5.9	5.3
Net interest	1.3	1.3	1.5	1.7	2.0	2.3	2.6	2.8	2.9	3.0	3.1	3.1	2.0	2.6
Total	**20.8**	**20.5**	**21.2**	**21.4**	**21.3**	**21.2**	**21.5**	**21.7**	**21.8**	**22.1**	**22.0**	**22.0**	**21.3**	**21.7**
On-budget	17.0	16.4	17.1	17.3	17.1	16.9	17.2	17.2	17.3	17.5	17.3	17.0	17.1	17.2
Off-budget[a]	3.8	4.1	4.1	4.1	4.2	4.2	4.3	4.4	4.6	4.7	4.8	4.9	4.2	4.5
Deficit (-) or Surplus	**-4.1**	**-2.9**	**-2.8**	**-2.9**	**-2.7**	**-2.6**	**-3.0**	**-3.1**	**-3.1**	**-3.3**	**-3.0**	**-2.8**	**-2.8**	**-2.9**
On-budget	-4.3	-3.2	-3.0	-3.0	-2.8	-2.7	-2.9	-2.9	-2.8	-2.9	-2.5	-2.2	-2.9	-2.8
Off-budget[a]	0.2	0.2	0.2	0.1	0.1	*	*	-0.1	-0.3	-0.4	-0.5	-0.6	0.1	-0.2
Debt Held by the Public	72.1	73.8	73.6	73.1	72.6	72.3	72.5	72.9	73.3	73.9	74.2	74.3	n.a.	n.a.

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: n.a. = not applicable; * = between -0.05 percent and 0.05 percent.

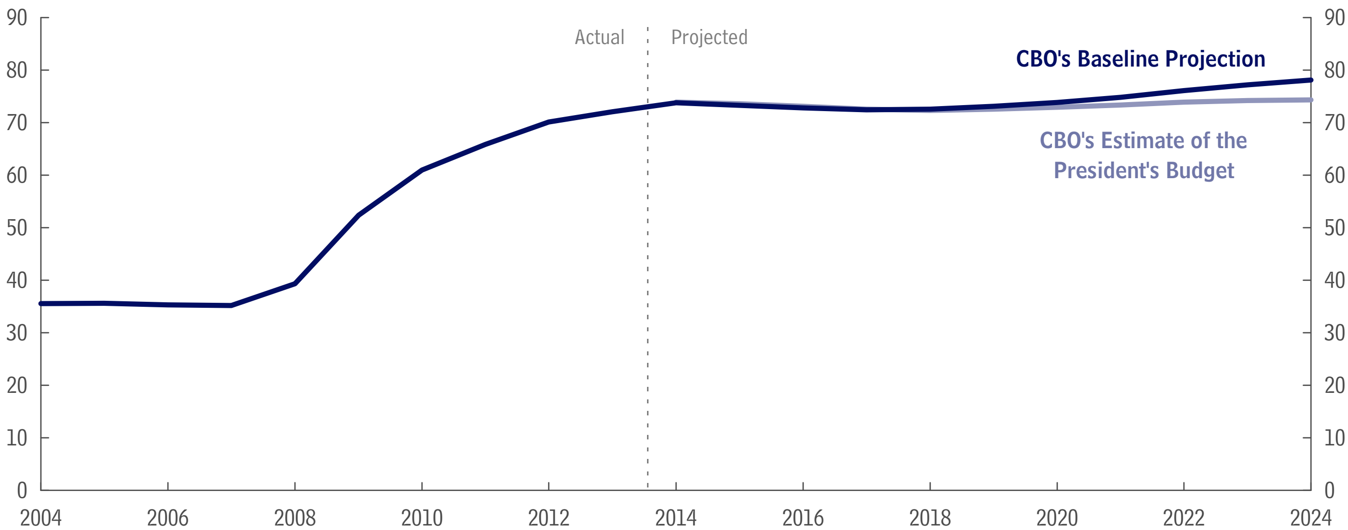
a. The revenues and outlays of the Social Security trust funds and the net cash flow of the Postal Service are classified as off-budget.

b. These figures come from CBO's baseline economic projections and do not reflect the macroeconomic effects of the President's proposals.

Figure 2.

Federal Debt Held by the Public Projected in CBO's Baseline and Under the President's Budget

(Percentage of gross domestic product)



Source: Congressional Budget Office.

would have various other economic and budgetary effects as well. CBO and JCT estimated that enacting S. 744 in 2013 would have, over the 2014–2023 period, increased revenues by $456 billion and raised direct spending by $298 billion, for a net reduction of $158 billion in the cumulative deficit.[5] Because the Administration has not specified its proposal in detail, for this report CBO is using the Administration's placeholder figures for the budgetary effects of the proposal, which match CBO and JCT's estimates for S. 744 (but shifted forward one year).

- Net reductions in spending for Medicare. All together, proposed changes to Medicare would decrease federal spending by $250 billion over the 10-year projection period. The President's proposal to freeze payment rates for physicians (rather than allowing the rates to be reduced in 2015, as would be required under current law) would boost outlays by $124 billion. Other proposals affecting Medicare (excluding the cancellation of the automatic spending reductions) would reduce outlays by $373 billion, CBO estimates.

Additional proposals in the President's budget include some initiatives that would widen the deficit and some that would narrow it. Those other proposals would change revenues and noninterest outlays by amounts that sum to a net increase of $190 billion in deficits over the 2015–2024 period.

How Do CBO's Estimates Differ From the Administration's?

CBO's estimates of budget deficits under the President's proposals are lower than the Administration's estimates for 2014 and 2015 but higher—by increasing amounts—between 2016 and 2024. The estimates of spending under the President's budget are very similar in total: CBO projects $174 billion less in outlays over the next 10 years than the Administration does, a difference of just 0.4 percent. CBO's projections of revenues under the President's budget are lower than the Administration's by a larger amount—by $1.8 trillion, or about 4 percent; the bulk of that difference stems from the fact that CBO projects less revenues under current law than the Administration does, mostly because CBO estimates lower GDP, wages and salaries, and domestic economic profits over the 2015–2024 period.

5. See Congressional Budget Office, cost estimate for S. 744, the Border Security, Economic Opportunity, and Immigration Modernization Act (July 3, 2013), www.cbo.gov/publication/44397. That cost estimate was based on an assumption that the legislation would be enacted during 2013; an estimate prepared this year for the same legislation assumed to be enacted in 2014 would differ.

In particular:

- For 2014, CBO's estimate of the deficit is $143 billion below what the Administration anticipates, almost entirely because of differing estimates of what will occur under current law. CBO estimates $111 billion less in spending and $32 billion more in revenues than does the Administration.

- For 2015, CBO's estimate of the deficit is $54 billion less than what the Administration anticipates because of differing estimates of outlays.

- Between 2016 and 2024, CBO estimates, the cumulative deficit under the President's proposals would total $6.1 trillion, which is $1.7 trillion more than the amount projected by the Administration.

Effects of the President's Proposals on the Budget Outlook

Enacting the President's policy proposals would raise the 2014 deficit to $506 billion, CBO and JCT estimate—less than the $680 billion deficit in 2013 but more than the $492 billion shortfall CBO estimates under current law (see Table 3 on page 8). That increase would result from an additional $16 billion in outlays and slightly higher revenues.

The effects of the President's proposals would be greater in 2015. Outlays are estimated to be higher by $73 billion (or about 2 percent), and revenues are estimated to be higher by $32 billion (or about 1 percent) than projected in CBO's baseline—boosting the deficit by an estimated $41 billion.

The proposals would increase the deficit slightly in 2016 and reduce it thereafter, relative to CBO's baseline projections, according to CBO and JCT's estimates. Revenues would rise from 17.6 percent of GDP in 2014 to 19.2 percent in 2024, compared with 18.3 percent projected for 2024 in the baseline and an average over the past 40 years of 17.4 percent; outlays would rise by about the same amount—from 20.5 percent of GDP in 2014 to 22.0 percent in 2024, compared with 22.1 percent projected for 2024 in the baseline and 20.5 percent, on average, during the past 40 years.[6]

Effects on Revenues

The President's budget would make a number of changes to tax law. If enacted, those changes would boost revenues by $32 billion in 2015 and by $1.4 trillion, or about 3 percent, during the 2015–2024 period, CBO and JCT estimate. (Those revenue proposals would also boost outlays by $254 billion between 2015 and 2024, mostly by increasing refundable tax credits.)

Limit Deductions and Exclusions. The President proposes to limit the extent to which higher-income taxpayers can reduce their tax liability through certain deductions and exclusions. Under the President's budget, the tax benefits of certain deductions and exclusions—including all itemized deductions as well as the exclusions for tax-exempt interest, employment-based health insurance, and employees' retirement contributions—would be limited to 28 percent of their value. That change would increase revenues by $498 billion from 2015 to 2024, according to JCT.

Enact Immigration Reform. The President's budget would alter the laws related to immigration, taking an approach similar to the one embodied in the comprehensive immigration legislation the Senate passed in 2013. Because the Administration has not specified the details of its proposal, for this analysis CBO is using the Administration's placeholder figures, which indicate an increase in revenues of $456 billion over the coming decade. (The President's budget also includes an estimated increase of $298 billion in direct spending from immigration reform over the same period; those costs are discussed in the section on outlays.)

Modify Estate and Gift Taxes. Starting in 2018, the parameters used to determine estate, gift, and generation-skipping transfer taxes (which apply to wealth transferred to an heir who is more than one generation younger) would be restored to their 2009 amounts under the President's budget. In particular, estates and gifts would be taxed at a maximum rate of 45 percent. In addition, the first $3.5 million of an estate would be exempt from taxation, and lifetime gifts would be taxed only after they exceeded $1 million. Beyond 2018, estate and gift taxes would stay at those amounts and would not be indexed for inflation. That proposal, along with some other

6. In the 40 years before fiscal year 2008, the deficit averaged 2.3 percent of GDP, revenues averaged 17.6 percent, and outlays averaged 19.9 percent.

proposed changes to those taxes, would increase revenues by $96 billion over the 2015–2024 period, JCT estimates.

Increase Tobacco Taxes. The President proposes to approximately double the excise taxes on tobacco products—including a 94-cent increase in the tax on a pack of cigarettes—and to index those taxes for inflation after 2014. By JCT's estimates, the proposal would raise revenues by $78 billion between 2015 and 2024. Furthermore, according to CBO's estimates, the proposal would decrease outlays by $2 billion over that period, mainly because improvements in people's health would reduce expenditures for the Medicaid and Medicare programs.[7] On net, the proposal would lower deficits by $80 billion through 2024.

Implement a "Fair Share Tax." As part of the President's budget, in 2015 a new minimum tax would be phased in for individuals with adjusted gross income between $1 million and $2 million; in later years, those thresholds would be indexed for inflation. Affected taxpayers would calculate whether the sum of their regular tax, their alternative minimum tax, the 3.8 percent surtax on their investment income, and the employee's portion of the payroll tax was less than 30 percent of their adjusted gross income (after deducting a credit for charitable contributions); if so, they would pay an additional amount of income tax to bring their total taxes up to that level. According to JCT, this proposal would boost revenues by $67 billion over the next decade.

Modify the Subsidies for Certain State and Local Bonds. The President proposes an additional way for state and local governments to borrow money with federal support. Instead of issuing tax-exempt bonds, starting in 2015 state and local governments could opt to issue a certain type of taxable bonds—known as America Fast Forward Bonds—and the federal government would provide subsidy payments to such governments that equal 28 percent of their interest costs on those bonds.[8] By allowing state and local governments to substitute taxable bonds for tax-exempt bonds, the proposal would increase taxable interest income, boosting federal revenues by $59 billion between 2015 and 2024, according to JCT. Because the proposal also would increase subsidy payments to state and local governments (which are recorded in the federal budget as outlays) by an estimated $64 billion, the net effect would be to increase the cumulative 10-year deficit by $4 billion.

Impose a Financial Crisis Responsibility Fee. Certain U.S.-based financial institutions would pay a fee under the President's budget that would generally be equal to 0.17 percent of covered liabilities (measured as the value of their assets adjusted for risk minus their capital, insured deposits, and certain loans to small businesses). That fee would increase revenues by $48 billion over the 2015–2024 period, in JCT's estimation.

Enact Business Tax Reform That Is Revenue Neutral in the Long Run. The President proposes that business taxes be reformed in a way that would have no net effect on revenues in the long run. The proposals that are specified in the budget to be part of that reform would have a net effect of reducing deficits by $225 billion over the 2015–2024 period, according to JCT. The Administration has not specified other components of a potential reform package that, in combination with the specified proposals, would result in no net change in revenues over the long run. However, because the Administration has stated a goal of revenue neutrality for business tax reform, CBO has not included any net savings from this proposal in its tally of the overall budgetary impact of the President's proposals.

The specified proposals for modifying business taxes and their estimated budgetary effects (which are shown in the memorandum to Table 3) are the following:

- *Change the U.S. system of taxing international income.* By targeting specific sources of tax avoidance associated with intangible assets (such as patents and trademarks) and modifying tax rules for calculating credits and expenses related to foreign operations, this proposal would raise revenues by $255 billion over 10 years, JCT estimates.

7. For more information on CBO's analysis of the effects of changes in tobacco taxes on federal outlays, see Congressional Budget Office, *Raising the Excise Tax on Cigarettes: Effects on Health and the Federal Budget* (June 2012), www.cbo.gov/publication/43319.

8. For more information on using taxable bonds with explicit subsidies as a substitute for tax-exempt bonds, see the testimony of Frank Sammartino, Assistant Director for Tax Analysis, Congressional Budget Office, before the Senate Committee on Finance, *Federal Support for State and Local Governments Through the Tax Code* (April 25, 2012), www.cbo.gov/publication/43047.

Table 3.

CBO's Estimate of the Effects of the President's Budget Proposals

(Billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
Deficit in CBO's April 2014 Baseline	-492	-469	-536	-576	-627	-722	-804	-878	-998	-1,005	-1,003	-2,930	-7,618
Effect of the President's Proposals													
Revenues													
Limit the extent to which deductions and exclusions reduce tax liability	*	14	44	43	47	50	53	57	60	64	67	197	498
Enact comprehensive immigration reform	0	2	12	28	39	45	47	55	64	77	87	126	456
Modify estate and gift taxes	0	*	*	1	2	8	11	15	18	20	21	11	96
Increase tobacco taxes	0	6	7	7	8	8	8	8	8	8	9	36	78
Implement a Fair-Share Tax	3	14	-5	5	6	7	7	7	8	8	9	27	67
Modify the subsidies for certain state and local bonds[a]	0	*	1	2	3	5	6	8	10	11	13	11	59
Impose a Financial Crisis Responsibility Fee	0	0	3	5	5	5	6	6	6	6	6	19	48
Other proposals	*	-4	*	13	16	7	5	9	11	14	14	32	86
Total Effect on Revenues	**2**	**32**	**62**	**105**	**126**	**135**	**143**	**165**	**185**	**208**	**226**	**460**	**1,388**
Outlays													
Mandatory													
Reclassify surface transportation spending as mandatory	0	14	35	44	48	52	55	57	58	60	61	193	483
Other changes to surface transportation programs	0	3	7	9	10	9	8	7	6	6	5	37	69
Enact comprehensive immigration reform	0	8	11	18	24	28	29	35	41	48	56	89	298
Freeze Medicare's physician payment rates	0	7	10	12	11	11	12	13	15	16	17	51	124
Other Medicare proposals[b]	0	-1	-12	-24	-30	-34	-42	-48	-55	-60	-67	-101	-373
Modify refundable tax credits	*	*	6	6	6	29	28	29	29	29	29	47	193
Cancel automatic spending reductions[c]	0	6	9	11	10	11	12	12	13	18	19	47	121
Increase funding for education and job training	0	11	6	9	12	14	13	13	14	14	13	52	119
Modify the subsidies for certain state and local bonds[a]	0	*	1	2	4	5	7	9	10	12	14	12	64
Other proposals	15	10	9	11	8	5	3	4	3	4	4	43	60
Subtotal, Mandatory Outlays	16	57	82	99	103	129	125	131	135	145	151	470	1,156
Discretionary													
Lower spending for overseas contingency operations	0	-5	-35	-53	-62	-67	-69	-72	-89	-101	-106	-222	-659
Reclassify surface transportation spending as mandatory	0	-14	-35	-44	-48	-52	-55	-57	-58	-60	-61	-193	-483
Other proposals[d]	0	34	61	65	58	54	49	36	27	24	24	272	433
Subtotal, Discretionary Outlays	0	15	-9	-32	-52	-65	-75	-93	-121	-136	-143	-142	-710
Net interest	1	1	1	1	-1	-4	-8	-13	-19	-28	-38	-2	-108
Total Effect on Outlays	**16**	**73**	**74**	**68**	**50**	**60**	**42**	**26**	**-6**	**-19**	**-30**	**326**	**338**
Total Effect on the Deficit[e]	**-14**	**-41**	**-12**	**37**	**76**	**74**	**101**	**139**	**191**	**227**	**256**	**135**	**1,049**
Deficit Under the President's Budget as Estimated by CBO	-506	-509	-548	-539	-551	-648	-703	-739	-807	-778	-746	-2,795	-6,569

Continued

- *Extend and increase the tax credit for research and experimentation.* In addition to retroactively and permanently extending the credit, which expired at the end of 2013, the President would raise the rate of the alternative simplified credit (one of two primary methods of calculating the research tax credit) from 14 percent to 17 percent. As a result, according to JCT, revenues would be reduced by $107 billion through 2024.

Table 3. **Continued**

CBO's Estimate of the Effects of the President's Budget Proposals

(Billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
Memorandum:													
Effect on the Deficit of Proposals Specified As Part of Revenue-Neutral Business Tax Reform													
Modify the U.S. international tax system	0	14	29	28	26	25	25	26	27	27	29	121	255
Permanently extend and increase the R&E tax credit	-3	-6	-7	-8	-9	-10	-11	-12	-13	-14	-15	-41	-107
Repeal the LIFO method of inventory accounting	0	5	11	11	11	11	11	11	11	11	11	50	106
Permanently extend increased expensing for small businesses	-7	-12	-10	-8	-7	-5	-4	-4	-3	-4	-4	-43	-62
Other[f]	-1	4	10	8	7	4	2	*	-1	-1	-1	33	33
Total[e,g]	-11	5	33	30	27	25	23	21	21	20	20	121	225

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: * = between -$500 million and $500 million; R&E = research and experimentation; LIFO = last in, first out.

a. This proposal, which would create what the President calls America Fast Forward Bonds, would increase outlays by more than it would increase revenues. The staff of the Joint Committee on Taxation estimate that the net effect of the proposal would be to increase the deficit by $4 billion.

b. The figures shown here do not include the effects on Medicare spending of the President's proposal to cancel automatic spending reductions to mandatory programs for each year from 2015 to 2024.

c. Refers to the spending reductions established by the Budget Control Act of 2011 and subsequently amended. Automatic spending reductions to mandatory programs would be canceled under the President's budget for each year from 2015 to 2024.

d. This category consists mainly of outlays stemming from the President's proposal to alter discretionary spending caps. The President's budget proposes eliminating the automatic spending reductions in place between 2016 and 2021 and instituting caps on discretionary spending through 2021 that would be higher than those in CBO's baseline (which assumes that the automatic spending reductions remain in place) but lower than the caps originally set in the Budget Control Act. The President also proposes to extend the caps through 2024.

e. Negative numbers indicate an increase in the deficit relative to CBO's baseline, and positive numbers indicate a decrease in the deficit.

f. Includes proposals that, on net, would raise revenues by $38 billion and increase outlays by $5 billion.

g. This total reflects policies that the Administration has specified as part of a proposed revenue-neutral reform of business taxes. Those policies would largely produce changes in revenues, but they would also cause some relatively small changes in outlays (included in the "Other" line). No estimates are included for the additional, unspecified policies that would make that set of proposals revenue neutral. The amounts shown for this total are not included in CBO's estimate of the total effect of the President's proposals on the deficit.

- *Repeal a provision of law that allows what is termed the last-in, first-out accounting method for inventory.* That method of accounting enables firms to assume that the last, generally costlier goods added to an inventory are the first ones sold, allowing firms to deduct those higher costs more quickly than they otherwise could and thus defer taxes. That proposal would increase revenues by $106 billion over the 2015–2024 period, according to JCT.

- *Permanently extend increased expensing for small businesses.* Until the end of 2013, small businesses were allowed to immediately deduct from their taxable income the full costs of their investments in equipment, up to $500,000, instead of spreading the costs out over time. This proposal would reinstate that provision and index for inflation the amount that could be immediately deducted. (Under current law, that amount reverted to $25,000 in 2014 and is not indexed for inflation.) Those changes in law would decrease revenues by $62 billion over 10 years, JCT estimates.

- *Implement other specified proposals for business tax reform.* Other such proposals specified in the President's budget would raise revenues by $38 billion and increase outlays by $5 billion over the 10-year period, according to JCT.

Although the changes to business taxes are intended to be revenue neutral over the long term, the Administration estimates that additional revenue would be generated temporarily from such changes as addressing untaxed foreign earnings accumulated overseas and modifying provisions regarding accelerated depreciation. The President's budget includes $150 billion in revenues, spread evenly over the 2015–2018 period, for that transition. CBO and JCT's estimates do not include any budgetary effect for the transition to a modified business tax system, however, because the Administration does not provide enough details about the nature of the tax changes that might generate those savings.

Effects on Outlays

The policies proposed by the President would increase noninterest outlays relative to spending under current law by $16 billion (or 0.5 percent) in 2014 and by $446 billion (or about 1 percent) between 2015 and 2024, CBO estimates. Because the President's revenue and spending proposals together would decrease deficits and thus require less federal borrowing than under current law, they would also lower interest costs—by an estimated $108 billion over the 2015–2024 period. (Nearly all of that change would occur in the second half of the decade.) Thus, under the President's budget, total outlays for that 10-year period would be greater by $338 billion, or 0.7 percent, than the amount in CBO's baseline.

Proposals That Would Affect Mandatory Spending. Under the President's proposals, outlays for mandatory spending would be $16 billion higher in 2014 than in CBO's baseline projections. That increase stems from the President's proposal to extend Emergency Unemployment Compensation through December 2014. That program, which expired at the end of December 2013, would provide benefits to people who have been unemployed for more than six months. (Benefits would be retroactive to January 2014 and would be available to people whose benefits were discontinued when the program expired, as well as to people who exhaust their regular benefits between January and December of this year.)

On net, outlays for mandatory programs would be higher by $1.2 trillion (or 4 percent) from 2015 through 2024 under the President's budget than under current law, according to CBO's estimates. Almost half of that increase—$0.5 trillion—comes from the proposed reclassification of outlays for certain transportation programs from discretionary to mandatory; the rest is related to policy changes proposed by the Administration. Excluding the proposed reclassification, mandatory spending under the President's budget would be $673 billion (or 2 percent) higher than under current law. Relative to GDP, mandatory outlays under the President's budget would equal 13.1 percent in 2015 and would grow to 14.2 percent of GDP by 2024—compared with 12.8 percent and 13.7 percent, respectively, under CBO's baseline projections.

Reclassify and Increase Spending for Surface Transportation Programs. The President proposes to reclassify outlays for surface transportation programs from discretionary to mandatory spending. (Those programs encompass spending for highways, railroads, and transit.) By itself, that reclassification would have no net budgetary effect, increasing mandatory outlays by $483 billion and reducing discretionary outlays by the same amount.[9] In addition, the President would raise the overall amount of funding for surface transportation programs, resulting in an increase of $69 billion in mandatory outlays.

Enact Immigration Reform. The President proposes to enact comprehensive immigration reform similar to what passed the Senate in 2013. For the purposes of this analysis, CBO is using the Administration's placeholder amounts—an increase of $298 billion in mandatory spending from 2015 through 2024.

Freeze Payment Rates for Physicians and Make Other Changes to Medicare. The Administration proposes numerous changes to laws that affect spending for Medicare. All together, the proposed changes would reduce mandatory spending by $250 billion from 2015 through 2024, CBO estimates. The largest change (in dollar terms) that the President proposes is to freeze Medicare's

9. For programs funded through the Highway Trust Fund, budget authority is classified as mandatory under current law; outlays, by contrast, are considered discretionary because historically they have been controlled by obligation limitations set in appropriation acts. Reclassifying those programs—which could be done through legislation, or without legislation if agreed to by the House and Senate Budget Committees, the Administration, and CBO—would shift an estimated $410 billion in outlays from the discretionary category to the mandatory category over the 2015–2024 period covered by CBO's baseline. Some surface transportation programs are funded through discretionary budget authority and would require legislation to reclassify; in CBO's baseline, outlays for those programs total $74 billion between 2015 and 2024.

payment rates for physicians at the amounts in place on March 31, 2014. After the President's budget was submitted to the Congress, lawmakers enacted legislation to extend those payment rates through March 31, 2015. Relative to current law, the proposal to further extend physicians' payment rates would increase mandatory spending over the 2015–2024 period by $124 billion, CBO estimates.

Most of the President's other proposals involving Medicare are designed to decrease the program's spending. They would do so in various ways, including these:

- Reducing payments to certain health care providers, including hospitals and skilled nursing facilities;
- Increasing cost-sharing amounts for some beneficiaries;
- Requiring manufacturers to pay rebates on prescription drugs dispensed to low-income beneficiaries enrolled in Part D of Medicare (which covers outpatient prescription drugs);
- Reducing payment rates for certain biological drugs (products derived from living organisms) covered under Part B of the program (which covers doctors' services, outpatient care, home health care services, and other medical services); and
- Enhancing Medicare's ability to reduce waste, fraud, and abuse through claims reviews and other activities.

All of the proposed policies affecting Medicare other than freezing payment rates for physicians would reduce outlays by a total of $373 billion over 10 years, CBO estimates.[10]

Modify Refundable Tax Credits. Under the President's budget, various refundable tax credits, including the earned income tax credit, the child tax credit, and the American Opportunity Tax Credit, would be modified. Most notably, the American Opportunity Tax Credit and certain provisions of the earned income and child tax credits that are scheduled to expire at the end of 2017 would be extended permanently. Those policy changes, along with other tax proposals that also would affect the refundable portion of those credits, would increase outlays for refundable credits by an estimated $193 billion over the 2015–2024 period, according to JCT.[11]

Cancel Automatic Spending Reductions. The President proposes to remove the automatic reductions in mandatory spending that were originally put in place through 2021 (as specified by the Budget Control Act of 2011, Public Law 112-25) and subsequently extended through 2024.[12] If those automatic reductions (known as sequestration) were eliminated for all years beginning with fiscal year 2015, mandatory spending would be $121 billion higher over the coming decade, CBO estimates, than the amount under current law.

Increase Funding for Education and Job Training Programs. The President's proposals for education and job training would increase mandatory spending over the next decade by $119 billion, CBO estimates. That total includes $66 billion in additional grants to expand preschool programs and $21 billion for a career pathways program that would assist people making the transition from school to work and provide training and other support to dislocated workers.

Modify Subsidies for Certain State and Local Bonds. Under the President's proposals, state and local governments would have an alternative borrowing option to use in place of tax-exempt bonds. Although interest on the alternative bonds—called America Fast Forward Bonds—would be taxable, the federal government would provide a subsidy payment to state and local governments equal to 28 percent of their interest costs. JCT estimates that those subsidy costs would amount to $64 billion from 2015 through 2024. (In addition, use of the taxable

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10. That amount does not include the effects on Medicare spending of the proposal to eliminate the automatic spending reductions that are scheduled under current law, which is discussed separately. (CBO's April 2014 baseline projections for Medicare incorporate $104 billion in net savings from those automatic procedures, which would reduce payment rates for most Medicare services by 2 percent between 2014 and the first half of fiscal year 2023, by 2.9 percent for the second half of fiscal year 2023, by 1.11 percent for the first half of fiscal year 2024, and by 4.0 percent for the second half of fiscal year 2024.)

11. In addition, the proposal to extend the American Opportunity Tax Credit would reduce revenues by $38 billion over the 10-year period. Other proposals affecting outlays for refundable tax credits would decrease revenues by smaller amounts.

12. The President would also cancel the automatic reductions that are slated to reduce the caps on funding for discretionary programs from 2016 through 2021.

bonds under this proposal would raise revenues by $59 billion over those 10 years, according to JCT, for a net increase of $4 billion in the deficit.)

Other Proposals. Taken together, all other proposals related to mandatory programs would increase spending by $60 billion over the 10-year period.

Included in that total is an increase of $21 billion, on net, from changes to Medicaid and other non-Medicare health programs (such as the Children's Health Insurance Program and programs of the Health Resources and Services Administration). Proposals that would raise such outlays include increasing funding for the Health Center Program and for the Maternal, Infant, and Early Childhood Home Visiting program. Those higher costs would be partly offset by proposals that would reduce federal spending, such as changing the rules about patent settlement agreements and the approval for certain drug products, as well as increasing rebates paid to the government by pharmaceutical companies for Medicaid drugs.

That total also includes the effects of other proposed policies, some of which would increase mandatory spending between 2015 and 2024 and others of which would reduce it:

- Expanded access to subsidized child care would increase outlays by $18 billion;
- Grants to communities to rehabilitate abandoned properties (Project Rebuild) would increase outlays by a total of $15 billion;
- Dedicated funding for land and water conservation programs would increase mandatory spending by $7 billion; and
- Lower crop insurance subsidies would reduce outlays by a total of $14 billion.

Proposals That Would Affect Discretionary Spending. For discretionary programs, which receive new funding each year in appropriation legislation, CBO estimates that the President's budget would result in outlays over the next decade that are $710 billion (or 5.6 percent) below the amount in CBO's baseline. However, $483 billion of that reduction would simply be a reclassification of certain spending for surface transportation as mandatory spending.

In addition, the President proposes funding for overseas contingency operations that would result in outlays that are $659 billion below the sums projected in CBO's baseline (which are based on the 2014 appropriation with adjustments for future inflation). Appropriations for such operations have declined in recent years and may decline further as military operations in Afghanistan wind down, but future needs for such activities are difficult to predict.

Over the 2015–2024 period, the President's proposals other than those involving the reclassification of transportation programs and the phasing down of funding for overseas contingency operations would boost spending for discretionary programs by $433 billion (or 3.9 percent) relative to the amounts projected under current law, CBO estimates.

Relative to GDP, discretionary outlays under the President's budget would equal 6.6 percent in 2015 and would fall to 4.6 percent of GDP by 2024—compared with 6.6 percent and 5.1 percent, respectively, under CBO's baseline projections. (On average, discretionary spending has amounted to 8.3 percent of GDP over the past 40 years.)

Proposed Appropriations for 2015. The President has requested a total of $1.16 trillion in discretionary budget authority for 2015. That amount is $29 billion (or 2.6 percent) more than the amount that was appropriated for 2014 (see Table 4). The President's funding request exceeds the current caps on appropriations for 2015 (set in the Bipartisan Budget Act of 2013, P.L. 113-67) by $55 billion (or 5.5 percent). That amount reflects proposed funding for the Opportunity, Growth, and Security Initiative, which would provide additional funds for defense and nondefense activities.

For defense discretionary programs, the President proposes to increase appropriations by $23 billion (or 3.8 percent) from 2014 to 2015. That proposal reflects a placeholder of $79 billion for defense activities classified as overseas contingency operations, which would be a decrease of $6 billion from the amount appropriated for 2014.[13] Appropriations for other defense activities would total $550 billion under the President's request, an amount that is $28 billion above the limit for 2015 set in

13. The President also requests $6 billion in nondefense funding for overseas contingency operations, which would be a decrease of $1 billon from the amount appropriated for 2014.

Table 4.

Discretionary Budget Authority Proposed by the President for 2015, Compared With Appropriations for 2014 and 2015

(Billions of dollars)

	Actual, 2013	Enacted, 2014[a]	President's Budget, 2015[b]	Percentage Change 2013–2014	Percentage Change 2014–2015
Defense					
Overseas contingency operations[c]	82	85	79	3.7	-7.0
Emergency requirements	*	0	0	-100.0	0
Other	518	520	550	0.5	5.6
Subtotal	600	606	629	0.9	3.8
Nondefense					
Overseas contingency operations[c]	11	7	6	-39.9	-9.3
Emergency requirements	48	0	-1	-100.0	n.a.
Other	481	521	529	8.3	1.5
Subtotal	540	528	533	-2.3	1.1
Total	**1,140**	**1,133**	**1,163**	**-0.6**	**2.6**

Source: Congressional Budget Office.

Notes: The numbers shown here do not include obligation limitations for certain transportation programs.

* = between zero and $500 million; n.a. = not applicable.

a. The President does not propose any changes to appropriations for 2014.

b. The President proposes to reduce budget authority by a total of $19 billion for certain mandatory programs through the appropriation process. In keeping with long-standing procedures, those changes are credited against discretionary spending and therefore are included in the figures for 2015. (For 2013 and 2014, any such effects appear in their normal mandatory accounts and are not shown here.)

c. Overseas contingency operations consist of military operations and related activities in Afghanistan and other countries.

the Bipartisan Budget Act and $29 billion (or 5.6 percent) more than the funding provided for those purposes in 2014. That rise in funding can be accounted for almost entirely by the Opportunity, Growth, and Security Initiative, which would provide additional funds for a wide array of defense activities and programs, including base operations, improvements in facilities, military construction, aircraft procurement, and research and development.[14]

Under the President's budget, most nondefense discretionary programs would receive funding for 2015 similar to what was appropriated for 2014. In total, net new budget authority for nondefense programs that would be provided through appropriations for 2015 under the President's budget would increase by $6 billion between 2014 and 2015; apart from nondefense funding for overseas contingency operations and emergency requirements, such budget authority would increase by $8 billion under the President's budget.

That net change reflects a number of partially offsetting factors. Implementing the Opportunity, Growth, and Security Initiative would increase nondefense discretionary funding in 2015 by $28 billion; such funding would be available for various types of programs, including those related to education, research, infrastructure, and public health. That increase would be partially offset by a shift of $11 billion from 2015 to 2016 in funding for the Department of Justice's Crime Victims Fund; a rescission of $5 billion from the Child Enrollment Contingency Fund and the Children's Health Insurance Fund; a reclassification, totaling $4 billion, of transportation funding from discretionary to mandatory; and a net reduction of

14. Although 95 percent of the funding for that initiative would be for programs and activities of the Department of Defense, the President did not include it in his request for that agency or specify any other agency. Rather, the budget shows the additional $28 billion as a more general "defense-related activity."

$2 billion in funding across many other programs.[15] Although those reductions in budget authority would be made in appropriation bills, most of them would affect mandatory programs and would not generally result in less spending for those programs over the period from 2015 through 2024.

Proposed Appropriations for 2016 Through 2024. Proposed budget authority dips in 2016 by about $40 billion. That decrease can be mainly attributed to the one-time funding proposed for the Opportunity, Growth, and Security Initiative (funding for that initiative is not proposed after 2015) and to a $55 billion reduction in the request for funding for overseas contingency operations; increased spending resulting from higher proposed caps on other appropriations would partially offset those reductions.

After 2016, budget authority would increase by an average of about 1.5 percent per year—from $1.12 trillion in 2016 to $1.27 trillion in 2024. Among the broad proposals for that period are these:

- Increasing the caps on funding through 2021 relative to what they would be under current law and extending those caps through 2024,
- Reclassifying certain surface transportation programs as mandatory, and
- Reducing funding for overseas contingency operations. (The proposed funding includes a placeholder of $30 billion a year through 2021 for such activities, compared with $85 billion for 2015; the Administration does not request any such funding after 2021.)

Effects on Net Interest

The policy changes in the President's budget would decrease the government's borrowing needs by about $1 trillion through 2024. (That figure includes the effects on nonbudgetary cash flows for credit programs.) However, deficits would be higher in the first three years of the period and lower in the later years. As a result, net interest costs would be slightly higher than the amount in the baseline between 2014 and 2017 but $111 billion lower from 2018 through 2024—for a total reduction in such payments (relative to the total in the baseline) of $108 billion from 2015 through 2024. Measured in comparison to the size of the economy, net interest payments under the President's budget would amount to 3.1 percent of GDP in 2024, which is about 0.1 percentage point lower than the figure in the baseline and more than double the percentage estimated for 2014.

15. For enforcing Congressional budget rules, the effects of provisions in appropriation bills that make changes to mandatory programs are classified as discretionary when the legislation is considered; in its subsequent baseline projections, CBO categorizes those effects as mandatory rather than discretionary. In the Consolidated Appropriations Act of 2014 (P.L. 113-76), some reductions in mandatory budget authority were included to help comply with the caps; the President has proposed similar reductions to mandatory budget authority for inclusion in the appropriation bills for 2015.

Differences Between CBO's and the Administration's Estimates of the President's Budget

For 2014 and 2015, CBO's estimates of the deficit under the President's budget are smaller than the shortfalls estimated by the Administration, by $143 billion and $54 billion, respectively (see Table 5). For outlays, CBO's estimates are $111 billion lower this year and $54 billion lower in 2015. For revenues, CBO expects that $32 billion more will be collected this year than does the Administration, whereas the two estimates are nearly identical for 2015. Almost all of the differences between the two sets of deficit estimates for this year and next year are attributable to differences in estimates for spending and revenues under current law, as opposed to different assessments of the effects of the President's policy proposals.

For fiscal years 2016 to 2024, CBO's estimate of the cumulative deficit under the President's budget is $1.7 trillion higher than the Administration's estimate. CBO estimates that revenues under the President's proposals would be lower than the Administration does and that the difference would grow in each year of the projection period. Partially offsetting that difference, CBO estimates that outlays would, on net, be less throughout the 10-year period than the Administration estimates, with lower mandatory outlays but higher discretionary outlays and higher spending on net interest.

Differences in Estimates of Revenues

For 2014, CBO's estimate of revenues under the President's proposed budget exceeds the Administration's

Table 5.

Sources of Differences Between CBO's and the Administration's Estimates of the President's Budget

(Billions of dollars)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Total 2015-2019	Total 2015-2024
							Administration's Estimate						
Deficit Under the President's Budget	-649	-564	-531	-458	-413	-503	-512	-504	-530	-482	-434	-2,468	-4,930
							Differences Between CBO's and the Administration's Estimates						
Differences in Revenues[a]													
Legislative[b]	*	*	*	*	*	*	*	*	*	*	*	*	*
Economic	-19	-45	-73	-103	-106	-100	-103	-107	-105	-102	-94	-426	-937
Technical	51	45	42	18	-34	-65	-108	-151	-179	-205	-240	6	-876
Total, Revenues	32	*	-30	-85	-140	-165	-210	-257	-283	-308	-334	-420	-1,813
Differences in Outlays[c]													
Mandatory													
Legislative[b]	*	1	*	1	1	1	*	-1	-1	-1	-4	4	-3
Economic	-1	4	5	6	5	5	4	5	6	5	4	24	48
Technical	-120	-91	-53	-35	-31	-48	-48	-46	-41	-47	-51	-257	-491
Subtotal, Mandatory	-121	-86	-48	-28	-25	-42	-45	-42	-36	-42	-52	-229	-445
Discretionary (Technical)	5	17	28	15	6	10	13	7	16	12	4	77	129
Net interest													
Legislative[b]	*	*	*	*	*	*	*	*	*	*	*	*	1
Economic	6	4	11	25	37	37	39	41	44	47	50	113	334
Technical	-2	10	-4	-15	-21	-24	-27	-29	-30	-28	-24	-55	-193
Subtotal, Net Interest	4	15	6	10	16	12	12	13	14	18	26	59	142
Total, Outlays	-111	-54	-13	-3	-3	-20	-19	-22	-6	-11	-22	-93	-174
Total Differences[a]	**143**	**54**	**-17**	**-81**	**-137**	**-145**	**-191**	**-235**	**-277**	**-296**	**-313**	**-327**	**-1,639**
							CBO's Estimate						
Deficit Under the President's Budget	-506	-509	-548	-539	-551	-648	-703	-739	-807	-778	-746	-2,795	-6,569
Memorandum:													
Total Legislative Differences[a,b]	*	-1	*	-1	-1	-1	*	*	1	1	4	-5	2
Total Economic Differences[a]	-24	-53	-88	-133	-148	-141	-146	-152	-154	-155	-148	-563	-1,319
Total Technical Differences[a]	167	108	72	53	11	-3	-45	-83	-124	-142	-169	241	-322

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

Note: * = between -$500 million and $500 million.

a. Positive numbers indicate that such differences cause CBO's estimate of the deficit to be smaller than the Administration's estimate.

b. Legislative differences stem from legislation that was enacted after the President's budget was prepared but that was not among the President's proposals.

c. Positive numbers indicate that such differences cause CBO's estimate of the deficit to be larger than the Administration's estimate.

estimate by $32 billion, or 1 percent. The bulk of that difference—$27 billion—results from differing estimates of what will occur under current law, mostly because CBO expects more receipts from corporate income taxes. The remaining $5 billion stems from different estimates of the revenue effects of the President's proposals.

For 2015 to 2024, CBO projects that revenues will total $1.8 trillion, or 4 percent, less than the Administration projects. About half of that difference, or $0.9 trillion, stems from differences in economic forecasts. In particular, CBO projects that GDP and wages and salaries will be between 1 percent and 2 percent lower over the 2015–2024 period than the Administration projects and that domestic economic profits will be about 9 percent lower. Those lower wages and salaries would result in smaller collections of individual income and social insurance taxes; likewise, lower profits would result in smaller collections of corporate income taxes.

The other half of the differences in projected revenues stem from various technical factors. About $0.5 trillion of those technical differences between the two projections is related to estimates of revenues under current law, mainly reflecting CBO's lower projected average tax rates on domestic economic profits and on wages and salaries. In addition, CBO and JCT estimate that the President's budget proposals would increase revenues by $0.4 trillion less than the Administration estimates. The most significant factor accounting for the technical differences between the two estimates of the President's proposals concerns the proposal for implementing a new system for taxing business income. The Administration anticipates short-term revenue increases totaling $150 billion between 2015 and 2018 from the transition to that new system. CBO and JCT did not include any such effect in their estimate, however, because the budget does not provide enough details about the proposal. An additional factor contributing to the different estimates involves the President's proposal to limit the extent to which deductions and exclusions reduce tax liability for higher-income taxpayers. JCT estimates a smaller revenue increase from that proposal than the Administration does.

Differences in Estimates of Outlays

For 2014, CBO's estimate of outlays under the President's budget is $111 billion (or 3 percent) lower than the Administration's. CBO's estimate of mandatory spending this year is below the Administration's by $121 billion. About half of that difference arises from CBO's assumption that the reclassification of surface transportation outlays from discretionary to mandatory would apply only to outlays from funding provided in 2015 and beyond rather than to all such spending beginning in 2014, as the Administration assumes. Other factors that contribute to that gap include differing estimates of spending in three areas: subsidies that will help people buy health insurance through the newly established exchanges (accounting for $24 billion of the difference), the amount of payments to the Treasury from Fannie Mae and Freddie Mac ($12 billion), and outlays for Medicaid ($10 billion).

By contrast, CBO's estimate of discretionary outlays in 2014 is $5 billion higher than the total estimated by the Administration. CBO's assumption that the proposal to reclassify surface transportation outlays as mandatory would occur next year, rather than this year, pushes CBO's estimate of discretionary outlays up by $56 billion; in the other direction, CBO projects lower outlays for a variety of programs, including defense ($17 billion) and disaster relief ($4 billion).

For the 2015–2024 period, differences in estimates of total outlays are generally small in most years: Over the decade as a whole, CBO's estimates are lower than the Administration's by $174 billion—the net result of estimates by CBO that are lower for mandatory spending, by $445 billion; higher for discretionary spending, by $129 billion; and higher for outlays for net interest, by $142 billion.

Mandatory Spending. Technical estimating differences (those that are not attributable to different economic projections) account for most of the difference in estimated outlays for mandatory programs. Those differences make CBO's projections for mandatory spending nearly $0.5 trillion lower than the Administration's estimates. CBO's estimates over the 2015–2024 period are lower for a number of programs, including the following:

- For veterans' benefits, CBO's estimates of caseloads and average benefits are lower than those of the Administration, so CBO's estimates for those benefits are $218 billion less.

- CBO's estimates for Medicare spending are below the Administration's by $174 billion, chiefly because the Administration anticipates more rapid growth in spending per beneficiary.

- CBO assumes that spending on surface transportation from funding provided before 2015 will remain on the discretionary side of the budget, whereas the Administration assumes that it will be shifted to the mandatory side. As a result, CBO projects $116 billion less in mandatory outlays than does the Administration.

- CBO's expectations about the number of people collecting benefits are lower than the Administration's, and that factor accounts for most of CBO's lower estimate of spending for Social Security ($103 billion).

- For deposit insurance, CBO projects that spending (net of premiums) will be $80 billion less than the Administration projects. That difference largely arises because the Administration anticipates significantly more bank failures.

For some other programs, technical estimating differences go in the opposite direction, pushing CBO's estimates higher.

- CBO's projections of Medicaid spending are higher than the Administration's between 2015 and 2024. CBO's different estimates of per-person costs and estimated program enrollment account for most of the $201 billion difference in projected outlays for that program.

- CBO's projections of outlays related to Fannie Mae and Freddie Mac are nearly $201 billion higher than those of the Administration. That gap arises primarily because CBO's projections for the period are estimates of the anticipated subsidy costs for new mortgage guarantees issued by Fannie Mae and Freddie Mac (following the budgetary practices used for federal credit programs, with an adjustment for market risk). In contrast, the Administration's projections reflect estimated net cash payments to and cash receipts from those two entities.[16] (For 2014, CBO's estimates related to Fannie Mae and Freddie Mac reflect that cash treatment, recognizing that the cash-flow approach is how the Administration has been recording such transactions thus far this year.)

Different economic assumptions have little effect on the difference in estimated outlays for mandatory programs. They push CBO's projections of mandatory spending $48 billion higher than the Administration's over the 2015–2024 period. The most significant effects can be seen in the agencies' projected outlays for Social Security: CBO generally expects larger cost-of-living adjustments than does the Administration.

Discretionary Spending. CBO's estimate of discretionary spending for the 2015–2024 period exceeds the Administration's estimate by $129 billion. In particular, CBO estimates higher outlays than does the Administration in two areas:

- The President's proposal to reclassify surface transportation outlays accounts for a difference of $116 billion over the 2015–2024 period. CBO assumes that spending on surface transportation from funding provided before 2015 will remain on the discretionary side of the budget, whereas the Administration assumes that it will be shifted to the mandatory side.

- CBO's estimated net outlays for mortgage credit programs administered by the Federal Housing Administration are $72 billion higher (in other words, less negative) than the Administration's estimate,

16. The Administration treats Fannie Mae and Freddie Mac as nongovernmental organizations and records payments between the Treasury and the two entities on a cash basis. In contrast, CBO projects the budgetary impact of the two entities' operations as though they were conducted by a federal agency, because of the degree of management and financial control that the government exercises over them. Therefore, CBO estimates the net lifetime costs—that is, the subsidy costs—of new loans and guarantees to be issued by the entities and counts those costs as federal outlays in the year of issuance. See Congressional Budget Office, *Fannie Mae, Freddie Mac, and the Federal Role in the Secondary Mortgage Market* (December 2010), www.cbo.gov/publication/21992; and *CBO's Budgetary Treatment of Fannie Mae and Freddie Mac* (January 2010), www.cbo.gov/publication/41887.

because CBO projects that the agency's guarantees of single-family mortgages will generate smaller net gains to the government (on a present-value basis) than the Administration anticipates.

In the other direction, CBO anticipates lower outlays over the 10-year period for defense ($35 billion), international affairs ($22 billion), and a variety of other programs ($3 billion, on net).

Net Interest. By CBO's estimate, net interest under the President's policies would be $142 billion (or 3 percent) higher for the 2015–2024 period than the Administration's figure. CBO projects higher interest rates than the Administration does for most years in the coming decade—especially in the early part of the period. On average for the 2014–2019 period, CBO anticipates rates that are nearly 0.4 percentage points higher for 3-month Treasury bills and 0.3 percentage points higher for 10-year Treasury notes. Differing assumptions about the mix of securities that the Treasury will issue over the next 10 years partially offset the effects of higher interest rates.

About This Document

This Congressional Budget Office (CBO) analysis of the President's budgetary proposals for fiscal year 2015 (which were released on March 4, 2014, with additional details published on March 10, 2014), was prepared at the request of the Senate Committee on Appropriations. In keeping with CBO's mandate to provide objective, impartial analysis, the report makes no recommendations.

Christina Hawley Anthony, Barry Blom, and Santiago Vallinas of CBO's Budget Analysis Division wrote the report, with assistance from Pamela Greene and Mark Booth and with guidance from Jeffrey Holland, Peter Fontaine, Theresa Gullo, Holly Harvey, and David Weiner. The estimates described here were the work of many analysts at CBO and on the staff of the Joint Committee on Taxation.

Robert Sunshine reviewed the report, and Christine Bogusz edited it, with assistance from Christian Howlett. Maureen Costantino and Jeanine Rees prepared the report for publication. An electronic version is available on CBO's website (www.cbo.gov/publication/45230).

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